

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Iraq

**Post:** Baghdad

### **Recent Iraqi Food Product Inflation and Domestic Food Assistance Costs**

**Report Categories:**

Food Security

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**Report Highlights:**

Iraq is dependent on imported commodities and food products to meet its food security goals. This report looks at annual price changes since 2007 for a small number of food products. We also provide some estimates regarding the cost of the Ministry of Trade-administered Public Distribution System, Iraq's inefficient and poorly-run domestic food assistance program.

## **General Information:**

### **Iraq Food Price Increases: 2007 – 2011**

#### **Government of Iraq View:**

Food prices increases and the availability of basic food items are increasingly being cited as one of the reasons for underlying dissatisfaction by the Iraqi population with its government. Food price increases and availability along with lack of clean drinking water, adequate sanitation, electric power, fuel for transportation, as well as for heating and cooking and lack of employment opportunities are mentioned in most press and media reports of dissatisfaction and protest.

Iraq's Ministry of Planning (COSIT) tracks food prices as part of their monthly CPI. Food price increases during 2010 according to their data do not appear to be excessive. The food and non-alcoholic beverage component of COSIT's CPI showed a 4.9% increase December, 2010, over December, 2009. Food price increases were led by meats and vegetables registering 8.2% and 11.7% increases respectively. Flour, sugar, and vegetable oil price changes were -1.3%, 1.2% and 5.4% respectively.

The price decrease reflected by COSIT's for cereal products doesn't jibe with market realities given the near doubling of wheat prices during this period, and reported shortages in Public Distribution System (PDS) deliveries of flour and rice. World grain prices began their steep price increase during early June, which is more than enough time for a measurable price impact. Iraq is also a large importer of flour through commercial channels, price increases would have been passed on immediately to importers and wholesalers.

Press releases by the Iraq Ministry of Trade have characterized shortages of flour and rice as "fabricated". The Ministry has not commented publically regarding the supply and distribution of sugar, vegetable oil, and milk powder.

#### **USDA – Baghdad**

Wholesale market prices for food and other products have been collected dating back to at least 2006 through mid- 2010 under a USAID sponsored program, ANKA. While this program has ended it leaves behind a huge quantity of useful data for comparison purposes. The table below is derived from Iraq wide wholesale price data 2007 – 2010, January/January data. The data for 2011 was obtained by a local staffer who visited Baghdad's main wholesale market, Jamila, on February 8, 2011.

What is evident from the wholesale market derived data is that prices for a number of the basic food items, (flour, rice, vegetable oil) have risen substantially over the last 12 months. Prices for other basic items, sugar, mutton, and chicken have remained stable (sugar), shown modest increases (mutton), or declined (chicken). While this may appear to be a positive note to an otherwise troubling situation it is not. Sugar and mutton prices saw very large price increases during 2009, which were sustained or experienced further increases during 2010. Poultry prices are the only component of these basic food items that have had a stabilizing effect on overall food price increases in recent years.

**Iraq Wholesale Prices – Basic Products: Year over Year % Change**

	PRODUC T		2007		2008		2009		2010		2011		2011/2007	
			(Iraqi Dinars/K G)		Y/ Y %		Y/ Y %		Y/Y %		Y/Y %		Y/Y %	
	<b>FLOUR</b>		460		25 %		13 %		-15%		67%		100%	
	<b>RICE</b>		780		36 %		11 %		-3%		18%		73%	
	<b>SUGAR</b>		720		- 17 %		- 8%		73%		0%		32%	
	<b>VEG OIL</b>		1,250		36 %		15 %		-34%		56%		60%	
	<b>MUTTON</b>		7,200		7%		30 %		30%		8%		94%	
	<b>FRZN.CH KN</b>		3,000		0%		- 3%		-13%		-4%		-10%	
	<b>FRSH VEG.</b>		550		3%		- 10 %		3%		12% *		7%	
									Weight ed		15%		25%	

\* COSIT, Ministry of Planning – December 2009-December 2010

Wholesale flour prices increased 67% during the 12 month period ending in January 2011, rice, vegetable oil prices increased 18% and 56% respectively, while mutton and vegetables increased 8% and 12% respectively, sugar showed no year over year increase but remained at the high price levels reached during 2009. Imported frozen chicken prices declined 4%, the one bright spot for consumers.

Consumer discontent may be more connected to food price increases over the 2007-2011 timeframe, than to the more recent price increases. Wholesale prices for flour, rice, sugar, vegetable oil and mutton, have risen 100%, 73%, 32%, 60%, and 94% respectively since 2007. To accurately understand the consumer impacts of higher food prices, it is necessary to assign weights, based upon the percentage of the food budget each component comprises. When the 7 items are weighted according to COSIT CPI data, 2010 food price increases for this aggregated group appears to be approximately 15%. This same group of 7 items has risen approximately 25% since 2007.

**Public Distribution System (PDS) Commodity Cost: 2011**

Commodity procurement cost will rise substantially in 2011 as world commodity prices continued to rise during the fourth quarter of 2010, and will likely not see significant decreases until the third quarter

of 2011, those decreases are predicated upon successful harvest across major northern hemisphere crop regions.

The PDS cash payment program is an add-on component of the PDS, designed to compensate consumers for missing ration items and increased food prices generally. Though yet to be formally approved by the Council of Representatives (the Iraqi Parliament), basically each Iraqi citizen will receive an additional \$12/month in order to help pay for food product inflation. The annual expense assuming this measure is adopted will be approximately \$4.6 billion dollars. The cash component is approximately the same value of the basic commodity import cost.

**PDS: Procurement Cost:** (excludes, processing, storage, distribution)

Commodity	Kilos/person	000MT/Month	000MT/Yr	\$/MT	Total Expenditure (Billion \$)
Wheat	12	384	4,608	\$520	2.40
Rice	3	96	1,152	\$610	.70
Sugar	2	64	768	\$800	.61
Vegetable Oil	1	32	384	\$2,000	.77
Milk Powder			50	\$4,000	.20
				Total	4.68
	\$/Person	\$/Mo (\$Million)	\$/Yr (\$ Billion)		
Cash Payment	12	384	4.60		4.60
				<b>Total</b>	<b>9.28</b>

Total PDS program cost could triple to levels well over 10 billion dollars during 2011. PDS program performance is not a function of expenditures. Those most dependent upon the PDS are the most likely to be poorly served. 2009 estimates by the WFP put the number of borderline food insecure or actually food insecure at around 7.5 million Iraqis, close to 25% of the population.

Iraq's food security is dependent upon imports as domestic production of milling quality wheat and rice, averages around 25% for wheat and less than 10% for rice, as a percentage of total PDS demand. Iraq is essentially 100% import dependent for sugar, vegetable oil and powdered milk, the other items now supplied under the PDS program. There is no transparency in the procurement process for these products. Iraq producers do supply the bulk of fresh fruit and vegetables to the local market, and almost all processed food is imported.

Food security problems reflect institutional failures in terms of the Ministry of Trade's inability to meet food import requirements associated with domestic food assistance in a timely manner as well the lack of a Ministry of Agriculture policy framework to increase the inherent, but diminished productivity of Iraq agriculture. Using the Strategic Framework Agreement as an anchor, the US has been advising the Ministry of Agriculture on policies intended to spur domestic agricultural production. In addition,

training and recommendations have been provided to the Ministry of Trade with the objective of increasing effectiveness in international commodity procurement and food assistance distribution.

**Iraq: Grain Production (MMT)**

Commodity	2009/10	2010/11	2011/12*
Wheat	1.40	2.50	2.15
Barley	.50	1.20	.90
Rice (rough)	.125	0.140	0.125

\*projection

Iraq's 2010/11 wheat and barley harvests were nearly double the drought affected crops of the previous two years. Iraq grain production for the 2011/12 crop based upon the early season condition of wheat and barley and anticipated irrigation shortages again this summer will likely be 15% lower than 2010/11.

**Iraq Rice Crop 2010/11**

Rice production increased for 2010/11 as yields were slightly better than for the previous rice crop. The area planted remained approximately the same, constrained by planting restrictions imposed by the Ministry of Agriculture in response to the overall low availability of irrigation water available from the Euphrates. While the 2010/11 Iraqi rice crop was larger than the previous year's crop, purchases by the Ministry of Trade to supply the PDS declined. The Ministry of Trade reports that it purchased 84,000 MT of rough rice in the current marketing season, against forecast production of 140,000 MT. On a milled basis this will equate to approximately 50,000 MT supplied by domestic producers to meet total PDS demand for rice of 1.152 MMT. Iraq rice producers will supply less than 5% of total PDS rice requirements this year. It is likely that producers have withheld rice with the intention to have it milled and sold through the private sector. The official rice procurement price was lowered for this season's crop, and shortages in local markets have probably made local market prices at least as attractive as official procurement prices.